

SYNOPTIC ANSWERS

S.Y.B.Com (Choice Based) Semester - IV

Financial Accounting and Auditing- Auditing

QP Code 66036

Date of Paper- 25th April 2019

Instructions to the Examiners / Moderators:

1. *Examiners / Moderators are requested to please go through the synoptic answers and marking scheme before starting the assessment in order to establish uniformity in the assessment.*
2. *Synoptic answers for subjective questions are recommendatory and suggestive only and not exhaustive in nature. Any additional valid and relevant points / answers or any omission of the points by the students can be considered by the examiners/moderators and dealt accordingly.*
3. *Please note that it is not required / expected that ALL the points mentioned in the answers should be included by the students. The contents should be correlated with the marks assigned to the question.*
4. *In case of any query/ doubts please feel free to contact the Chairperson / Paper setters.*
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1. (A) State whether the following statements are True or False (Any Ten) (10)

- i. The statutory auditor is responsible for taking and compiling the inventory. **FALSE**
- ii. An auditor should act like a bloodhound and not a watchdog. **FALSE**
- iii. An auditor cannot take the help of experts. **FALSE**
- iv. Routine Checking is normally done by the senior audit staff. **FALSE**
- v. The audit technique of confirmation is a formal inquiry only from insiders. **FALSE**
- vi. Internal Control System is the responsibility of the management. **TRUE**
- vii. An Audit Program will serve its purpose only if it is in writing. **TRUE**
- viii. Audit sampling does not reduce the responsibility of the auditor for his opinion. **TRUE**
- ix. An auditor has no right of lien on the books of accounts of the company. **TRUE**
- x. Continuous Audit is an audit conducted during the year with regular or irregular intervals.
TRUE

- xi.** Sample size depends also upon the auditor’s assessment of degree of reliance to be placed on the internal controls. **TRUE**
- xii.** An auditor should also verify contingent liabilities. **TRUE**

(B) Match the Columns (Any Ten)

(10)

COLUMN ‘A’	COLUMN ‘B’
<ul style="list-style-type: none"> • Vouching • Wrong Casting by mistake • Teeming and Lading • Audit History • Random Selection • Internal Check • Internal Auditor • Audit working papers • Statutory Auditor • Bankers • Balance Sheet Audit • Fraud by Management 	<ul style="list-style-type: none"> • Examination of documentary evidence • A type of error • A type of fraud • Helps in deciding Sample Size • Method of selecting sample • Part of Internal Controls • No Prescribed Qualification • Property of Auditor • Prescribed Qualification • Users of financial information • In-depth Audit of Items in Balance Sheet • Window Dressing

2. A) Explain the concept ‘True and Fair View’ in auditing.

(08)

Following points to be considered:

True and Fair presentation of the actual Financial Performance and Position

Through true and fair P&L A/C and true and fair Balance Sheet

Financial statements are true and fair if they satisfy the following conditions

- 1) Conform to Financial Reporting framework
- 2) No window dressing or Secret reserves
- 3) Disclose all material facts
- 4) Comply with the governing laws

B) What are the primary objectives of Auditing?

(07)

Following points to be considered:

Primary objective: Expression of Opinion on whether the financial statements reflect a true and fair view of i) financial performance (P&L) and ii) Financial Position (Balance Sheet)

OR

C) Explain the term 'Errors'. What are the different types of Errors? (08)

Meaning of the term error: (2 marks)

Types of errors: (6 marks)

1. Errors of principle
2. Clerical errors
 - a) Errors of omission
 - b) Errors of commission
 - c) Compensating errors
 - d) Error of duplication

D) What is meant by 'Annual Audit'? What are its advantages? (07)

Meaning of annual audit- (2 marks)

Advantages of annual audit: (5 marks)

- 1) Less costly / Inexpensive
- 2) Audit at a stretch
- 3) No chance of alteration
- 4) No dislocation / disruption of accounts work
- 5) Less errors and frauds

3. A) What is an 'Audit Note Book'? What are its contents? (08)

Meaning of Audit Note Book - (2 marks)

Contents of Audit Note Book- (6 marks)

- 1) Details of work performed like what, how, when, by whom etc.
 - 2) Audit Techniques used
 - 3) Queries / Observations
 - 4) Response to the queries
 - 5) File Note / Adjusting entries
- In addition following may also be considered
- Nature of business
 - Important provisions affecting functions of the entity.
 - Financial structure of the organisation.
 - Administrative structure of the organisation.
 - List of books of accounts.
 - Name of the principal officers, their duties and responsibilities.
 - Particulars of system of accounting.
 - Important contracts to which client is a party.
 - Any other major observations by the audit staff

B) What is an ‘Audit Program’? What are its disadvantages?

(07)

Meaning of Audit Program- ((2 marks)

Disadvantages of Audit Program- (5 marks)

- Mechanical
- Rigidity
- No adequate reward
- Deficiency
- Incomplete
- Shelter to inefficient
- Not applicable to all
- Insufficient evidence

OR

C) What is a Permanent Audit File? What are the contents of a Permanent Audit File? (08)

Meaning of Permanent Audit File: (2 marks)

Contents of Permanent Audit File: (6 marks)

- Memorandum of Association, Articles of Association, Partnership /Trust deed, etc.
- Information regarding legal and organisational structure of the business.
- Extracts of important legal documents.
- Records of study and evaluation of internal control relating to accounting system.
- Copies of audited financial statements of previous years.
- Analysis of significant ratios and trends.
- Communication with the retiring auditor.
- Significant audit observations of earlier years.
- Notes regarding significant accounting policies.
- Important information / Observations about the promoters / Owners / Management.
- Summary of important discussions with the client.

D) Explain the importance of the Audit Working papers.

(07)

Following Points may be considered

- Audit Working Papers help the auditor to form an opinion based on audit evidence
- Audit Working Papers act as proof in the court of law.
- The auditor can understand the sincerity of his staff.
- Audit working papers help the auditor in finalisation of audit report without any delay.
- Audit Working Papers help the auditor in planning next year’s audit work.
- Audit Working Papers provide training to audit staff.
- Audit Working Papers help the auditor to answer the queries easily.
- Audit Working Papers provide means to control the audit work.

- Audit working papers are the property of the auditor.

4. A) Enumerate the factors influencing the sample size.

(08)

Following major points may be considered:

1. Sampling risk
2. Tolerable error
3. Expected error

Additional Points which may also be considered:

- Auditor's assessment of internal control
- Level of assurance required
- Result of previous audit work
- Stratification

B) What is Test Checking? Explain in brief the drawbacks of Test Checking.

(07)

Meaning of Test checking- (2 marks)

Drawbacks of Test Checking: (5 marks)

- Biased
- Unauthentic
- Greater risk
- Unscientific
- Not suitable everywhere
- Ignores Quality
- No element of surprise
- Sampling Risk

OR

C) What are Internal Checks? What are the objectives of Internal Checks?

(08)

Meaning- (2 marks)

Objectives of internal check: (6 marks)

- To eliminate the act of frauds and errors.
- To fix up responsibility of each person.
- To prevent misappropriation of goods and cash.
- To detect frauds and errors immediately.
- To exercise moral influence on the staff.
- To expedite the work of the employee.
- To increase the efficiency of the employee.
- To simplify the work of the auditor.

D) Explain the Internal Controls for Debtors.

(07)

Internal control relating to debtors should include the following:

- Division of work
- Procedures
- Credit Limits/ Credit control
- Prompt recording
- Prompt adjustments
- Age-wise schedule
- Statement of Accounts
- Discounts and write-offs
- Delivery challans, Invoices, Transfers, Pricing, etc.
- Sales returns, Credit notes
- Sales ledger, etc.

5. A) How would you verify Plant and Machinery?

(08)

The auditor should verify the following-

- Review of internal control
- Scrutiny of ledger
- Ownership
- Possession Physical verification
- Plant register
- Charge / lien
- Depreciation
- Acquisition expenses
- Machinery on hire
- Sale of machinery
- Plant and machinery abroad
- CARO 2016
- AS-10

B) How would you vouch Cash Sales?

(07)

The auditor should see the following while vouching cash sales:

- Internal controls
- Daily cash summary
- Documentary evidence (Cash Memo, delivery challan, etc)
- Proper entry
- Cash Discount
- Difference in cash memo and cash sales
- Posting
- Disclosure vide schedule III
- AS-9
- Guidelines by ICAI

OR

C) How would you verify Furniture and Fixtures? (08)

While verifying furniture and fixture the auditor should see the following:

- Internal control
- Verification of existence
- Verification of ownership
- Schedule of Furniture and Fixtures
- Register of Furniture and Fixtures
- Physical examination
- Cost verification
- Depreciation
- Disclosure
- Compliance of AS-10

D) How would you vouch Consignment Sales? (07)

Auditor should vouch Consignment Sales in the following manner-

- Review the internal control for consignment transactions.
- Check the agreement with the consignee. (Documentary Evidence)
- Check the proforma invoice sent with the goods.
- Check the transport expenses.
- Check insurance expenses.
- Check the commission due.
- Check the entries in the books of accounts.
- Check the sale price of goods.
- Check the expenses incurred by the consignee.
- Check the goods remaining unsold.

6. A) What is Auditing? What are the inherent limitations of Auditing? (10)

Meaning of Auditing (3 marks)

Inherent limitations of auditing (7 marks)

- Auditor cannot check each and every entry (Test Check Nature)
- Auditors work involves exercise of judgment
- Audit evidence not conclusive
- Audit cannot be relied upon to discover all frauds
- Auditor cannot decide objectively- what is material
- Auditor is not a technical expert
- Absolute certainty not possible
- Internal control

B) Explain the concepts of Verification and Valuation.

(10)

Meaning of verification and Valuation - (4 marks)

Points to be considered in Verification (3 marks)

- Existence
- Possession
- Ownership
- Charge of lien
- Record
- Audit Report
- Valuation and disclosure

Points to be considered for Valuation (3 marks):

- Method of valuation
- Consistency
- Correct Calculation
- Revaluation
- Foreign Exchange Transactions
- Accounting Practices
- Disclosure

OR

6. C) Write Short notes (Any Four) (5 marks each X 4 short notes)

(20)

a) Principles of Auditing

Integrity, objectivity and Independence, Confidentiality, Skill and competence, materiality, work performed by others, documentation, planning, audit evidence, accounting system and internal control, audit conclusions, audit reports.

b) Secret Reserve

Meaning, why secret reserves are created, how they are created, Objections, Auditor's Duty

c) Audit Planning

Meaning, Objectives, Advantages, Disadvantages.

d) Sampling Risk

Meaning, Types of Sampling risk, correlation with sample size.

e) Internal Audit

Meaning, Objectives, scope, functions, etc.

f) Vouching

Meaning, Points to be considered- Checking the Voucher, Checking the supporting documents, checking the entry.
